



Climate Alliance

Response to consultation

Draft Guidelines on Environmental and Energy State Aid for 2014-2020

February 2014

1. Energy system in transition: cooperation, decentralisation and local economic development

Draft State Aid guidelines are not in line with energy transition

The European Energy System is in transition. The transition process means strong decentralisation of the energy system based on renewable energy sources - but also completely new ways of governance. It is about building a new economy, which is clean and innovative and rethinking many of the current ways of working and thinking.

The proposals included in the draft State aid guidelines can be seen as another attempt to “save and protect” conventional energy producers and the “old energy infrastructure” based on centralised fossil fuels and nuclear. Both the lack of ambition of the Communication on the 2030 framework and the draft State Aid Guidelines are putting on hold the above-mentioned transition process, already well underway.

The State aid guidelines for 2014-2020 must also be in line with the Lisbon Treaty, as well as existing legislation such as the Directive on Renewable Energy. The European Union has committed to a swift transition to renewable energy and Member States and the Commission are working together on reaching the minimum 20% RES target by 2020. The backbone for RES support in all EU Member States is the RES Directive. The main driver for this Directive is the consensus that the EU Member States should have their own national support mechanism in order to achieve the respective national minimum binding target.

The current draft of the state aid guidelines however develops proposals, which go against the provisions of the RES directive (2009/28). However, the draft guidelines propose to prevent Member States from selecting the most appropriate support mechanisms but instead impose artificial thresholds to determine which schemes can be applied. Such changes cannot be made via secondary legislation e.g. the state aid guidelines, and without proper co-decision process.

Strong decentralization - citizens and local authorities leading the way

A more decentralised energy system promotes the optimal use of local energy resources to satisfy local consumption, to create more jobs, to ensure greater security of energy supply and not to forget resilience to extreme weather conditions. Increasing extreme weather events such as floods, storms, heat waves and droughts are already clear signs of the violent effects of climate change. Local

authorities are key-drivers in the implementation of concrete adaptation measures improving the overall resilience well in line with coordinated action on mitigation.

Citizens and local authorities are leading the way in the new energy system. EU citizens have an important role in many local and regional initiatives of renewable energy buying groups, community companies and cooperatives often in partnership with local and regional authorities and local energy utilities. For example, in Germany over 50% of new renewable capacity are decentralised energy systems owned by private people, farmers and energy co-operatives¹. Co-operatives are a powerful instrument for people to take their energy future into their own hands and benefit directly from investments, and for local authorities to involve their citizens in decision making and financing renewable energy investments. In addition, the local authorities have and will continue to have a central role in bringing together the private sector and other stakeholders to develop and implement new ideas and innovations in the field of climate and energy.

The energy transition process is not easy and many changes will occur: There will be less large scale energy production plants and instead, numerous small renewable energy production units, as well as buildings and houses producing more energy that they consume. There will also be fewer traditional big energy production companies and many more SMEs providing energy-related services and products. Everyone can have a role in the new energy system and local authorities can facilitate this and creation of “prosumers”.

Benefits of energy transition and a more decentralized energy system

Competitiveness and security of supply are best met via increased energy efficiency and with more decentralised energy production with renewable sources. This boosts competitiveness at the local level, creates jobs, and provides a solution for ensuring security of supply.

According to the draft Guidelines, neither decentralisation nor its benefits are considered. The document is written with a view to internal energy markets and disregarding the objective of increasing the share of renewable energy, innovation and local competitiveness. The draft guidelines are also contradictory when looking at the Cohesion Policy Funding for the period (2014-2020). Low Carbon Economy is one of the four priorities set for Europe with an aim of financing local and regional renewable energy and energy efficiency projects and investments.

In 2012 Europe used €545 billion for importing fossil fuels. Europe's import dependence has increased in the last two decades, and is set to grow to more than 80% in the case of oil and gas by 2035. Some Member States rely on one single Russian supplier, and often on one single supply route, for 80%-100% of their gas consumption. This situation is enforced by a global rise in energy demand of one third by 2035². This profoundly affects the competitiveness of Europe's economy and shows how far Europe is from its policy objective of security of supply.

Local authorities are rapidly increasing their efforts for climate action and the transition towards green growth. In a UNDP report of 2009³ it is estimated that more than 70% of climate mitigation measures (energy efficiency with building codes, LED's, waste to energy, decentralisation of energy (production with renewables), and up to 90% of the adaptation measures are being undertaken by local authorities.

¹“Renewable Energy: Shifting Sources of Power (Cont'd), Rick Bosnan and Daniel Scholten, in Government Gazette, October 2013

² European Commission, 2013; 'Energy Challenges and Policies, Contribution to the European Council 22nd of May': http://ec.europa.eu/europe2020/pdf/energy2_en.pdf.

³ United Nations Development Programme (UNDP), 2009. Charting a New Low-Carbon Route to Development: A Primer on Integrated Climate Change Planning for Regional Governments.

In addition, the [Covenant of Mayors](#) initiative launched in 2008 has become the major European movement of local authorities. The initiative counts today some 5,500 signatories. More than 3,300 Sustainable Energy Action Plans are currently under implementation in average aiming to reduce CO₂ emissions by almost 30%⁴. A growing number of committed cities and municipalities will continue to contribute to achieving the climate goals – also beyond 2020 – not only because these actions mitigate climate change, but also due to their positive economic and social impacts.

→ **Local energy production with renewable energy reduces the dependency on energy imports, reduces energy prices, and boosts local economies, creating more value as well as new local jobs:**

“100% RES Communities” or local authorities with an objective of becoming energy autonomous, are no longer isolated examples. Rather, their number is steadily growing: some have already reached this objective and others are well on their way. Several case studies from around the world showcase solutions and best practices that are waiting to be applied at a large scale. For example, **Saerbeck (DE)** is testing the storage of renewable energy and promotes having likeminded companies, involving the local private sector. In **Beckerich (LU)**, a biogas cooperative produces electricity and hot water for some 700 families, delivered through 14 km of district heating pipes. The municipality buys the heat produced and resells it to the citizens. In 2012, Beckerich raised €500, 000 by selling heat provided mainly by the local farmers. Local energy production is important also from an economic point of view: money stays in Beckerich, benefits the local economy, and creates local jobs. At least 15 long term jobs have been created.

In **Weissach im Tal (DE)**, citizens have founded the Energiegemeinschaft Weissacher Tal eG, a registered cooperative society for sustainable energies, together with their municipality. In only three years, the cooperative has built ten solar plants which now cover fifteen per cent of the energy demand in the community. Most of the plants stand on the roofs of municipal buildings, and Weissach mayor Ian Schölzel is the volunteer chairman of the cooperative society. The Weissach example shows impressively how municipalities can foster the successful start of a cooperative for sustainable energies.

→ **Energy efficiency and renewable energy investments boost local economies and create jobs:**

The **REDIBA project in Barcelona Province** (5.55 million inhabitants) finances the creation of a bankable energy efficiency projects mainly in the field of public lighting. The financial support is coming from ELENA (European Local ENergy Assistance) facility of the European Commission run by the European Investment Bank (EIB). So far €70 million worth of value has been generated, including some 80 investments. In terms of EIB criteria, the amount of investments awarded is €36 million. In total the project will mobilise €100 million worth of investments, and will create around 20 GWh of energy savings per year. It is estimated that 1.400 jobs (employed-year) linked to energy efficiency and 200 jobs linked to biomass projects will be created as a result of their investment programme.

Read more about the local vision for a competitive Europe:

http://www.klimabuendnis.org/fileadmin/inhalte/dokumente/2013/Competitive_Europe_local_vision_final.pdf

⁴ Further information on Covenant indicators: http://www.covenantofmayors.eu/IMG/pdf/covenant_indicators.pdf

2. Our concerns and proposals related to the guidelines

A. Support for small scale energy production with renewables is a must

→ ETS and CO₂ emission reduction targets are already supporting uptake of renewable energy and there is no market failure to be addressed (Article 42 and onwards)

False: this point is legally and factually incorrect. ETS is definitely not working, on the contrary: low CO₂ prices lead to switching off gas plants in order to keep in firing coal plants.

Support for renewable energy production must continue in the future, and it is the right of each member state to decide how to best accomplish this. Feed in tariffs have shown to be an effective instrument to promote renewable energy. They are not subventions (as the European Court of Justice ascertained several times) but costs that are charged to consumers in order to reduce the damages directly linked to their consumption patterns (polluter pays principle). In addition feed in tariffs provide financial incentives for investors.

Three binding, ambitious, coherent climate targets for 2030 are a must: Ambitious in order to mark the path for policies which lead far beyond the business as usual approach, and coherent in order to push related policies and legislation. The CO₂ emission reduction target alone is not sufficient to ensure ambitious climate and energy policies, and to use the existing opportunities to achieve a greener and more competitive Europe.

→ Member States may grant aid to installations of first commercial scale and to small installations with an electricity generation capacity of less than [1] MW, except for wind energy, where a threshold of [5 MW or 3 generation units] applies... Small installations with a common connection point to the electricity grid will be considered as one installation. (Article 123)

This – among other articles - puts small scale renewable energy projects in danger. There should be no requirements for a bidding process for small scale installations. The threshold should at least 5 MW and preferably even higher.

B. Do not introduce inefficient and ineffective bidding procedures

→ The Union has set an overall Union target for the share of renewable energy sources in final energy consumption and translated this into mandatory national targets. The Renewable Energy Directive includes cooperation mechanisms to facilitate cross border support for achieving national targets. Operating aid schemes should, in principle, be open to other EEA countries and Contracting Parties of the Energy Community to limit the overall distortive effects. It minimises costs for Member States whose sole aim is to achieve the national renewables target laid down in EU legislation. Member States however may want to have a cooperation mechanism in place before allowing cross border support as otherwise, production from installations in other countries will not count towards their national target under the RED. As a result, the Commission will not require that schemes are open to other EEA or Energy Community countries as long as Member States duly explain the reasons for the absence of a cooperation mechanism. (Article 118)

→ Tendering offers a solution with less real costs.

False: The competitive bidding process is not a miracle solution and will not reduce real costs. In reality, tendering requires huge administrative costs - and also raises questions on the capacities

needed to organise such processes. Such processes also often require high up front investments and lead to unnecessary system costs.

Would competitive bidding processes lead to contracting the cheapest possible technology / solution?

This is not at all the objective of state aid guidelines and it is not the aim to install the cheapest technologies but to get a sound technology mix which can be oriented according to the local potentials of renewable energy and the local consumption patterns. With only one (or few) technologies, no security of supply can be ensured. Stability can be reached through diversity! It is also not clear how tendering can solve the main challenge: to come to a (simultaneous / synchronised) coupling of production and consumption. In addition the biggest group of current renewable investors - private people, farmers and co-operatives would be eliminated from the market, in favour of the large energy companies.

C. Classification of technologies into deployed and less deployed not feasible

→ For deployed technologies, operating aid for new installations will be considered compatible if all of the following conditions are met:

- (a) Aid is granted in a genuinely competitive bidding process⁵ on the basis of clear, transparent and non-discriminatory criteria. (See article 120)**

Considering energy sources that provide 1-3% of electricity production (system wide?) as “deployed” is absurd. In addition, the connotations of the language implies that “deployed” technologies are strong and mature and no longer need support when in fact they still face many challenges in the face of the conventional energy system. And in fact many conventional energy producers still receive subsidies for various reasons. A better criterion could be the development of costs per installed capacity/power over time. If they are stable after some time (do not sink as fast as before) this could be at least a signal for deployment.

⁵ In order for the bidding process to be competitive, a sufficient number of undertakings should participate; the budget related to the bidding process should be a binding constraint in the sense that not all bidders can receive aid and aid shall be granted on the basis of the initial bid submitted by the bidder. Further, the competitive process may be staged (with a cap or reservation price imposed at different stages of the bidding process) to ensure a competitive bidding process which does not lead to overcompensation.

Contact details:

Pirita Lindholm, Director, Climate Alliance Brussels, p.lindholm@climatealliance.org, +32 2 213 8346

["Climate Alliance of European Cities with the Indigenous Rainforest Peoples"](#) is the largest city network committed to climate protection and preservation of the tropical rainforests. Since 1990, Climate Alliance has supported a total of now almost 1,700 members from 24 European countries in attainment of their voluntary commitments to reduce CO2 emissions by ten percent every five years and to halve per capita emissions by 2030 at the latest (base year 1990).